



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

August 22, 2012

To: Supervisor Zev Yaroslavsky, Chair
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

Board of Supervisors
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First District

MARK RIDLEY-THOMAS
Second District

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Third District

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Fifth District

RESPONSE TO JULY 10, 2012 ADMINISTRATIVE REQUEST FOR REPORT ON COUNTY FINANCIAL PRACTICES

On July 10, 2012, the Board directed the Chief Executive Office (CEO) to report back on how the County compares to Stockton's model for reckless borrowing, and how the County has been handling its financial responsibilities. The CEO consulted with the Auditor-Controller and the Treasurer and Tax Collector in order to provide a comprehensive review of the City of Stockton's bankruptcy and the County's fiscal condition. Below is a summary of the findings with further detail provided in Attachment I.

FACTORS LEADING TO STOCKTON'S BANKRUPTCY

The City of Stockton identified six primary factors that led to its bankruptcy filing: 1) unsustainable labor agreements; 2) excessive debt burden; 3) the housing market collapse; 4) unsustainable retirement benefits; 5) redevelopment agency dissolution; and 6) fiscal monitoring issues.

FACTORS OF COUNTY FISCAL CONDITION

The County Board of Supervisors has consistently remained conservative in its budgetary and fiscal decision-making to ensure the County's financial well-being. During the economic years when the County experienced large year-end fund balances, the Board set aside reserves for meeting future needs and further assured the County's stability by avoiding, to the extent possible, the use of one-time funding to pay for ongoing needs. Once the economic downturn was evident, the Board pro-actively implemented a multi-faceted strategy to address the issue. This strategy included

collaborating with the labor unions to agree to forgo salary increases; encouraging County departments to identify efficiencies and improvements in departmental operations that resulted in savings; instituting hiring and services and supplies freezes; as well as specific targeted curtailments. The analysis below will further compare and contrast the policies and practices of Stockton and the County.

Labor Agreements

Stockton's labor agreements provided excessive salaries when compared to cities with similar labor markets. Stockton also neglected to account for compensation benefits such as bonuses in its salary projections. These issues were compounded as the economic downturn impacted city revenues. In an attempt to address the matter, Stockton sought consensus from the labor unions to help close the budget gap, however, when the two largest unions would not come to an agreement, the city was forced to declare two fiscal emergencies to impose concessions on those uncooperative labor groups.

By comparison, the County's salary surveys evaluate employee compensation relative to the labor market and the surveys account for all forms of compensation, including bonuses. Los Angeles County and the labor unions have worked and continue to work collaboratively to address tough economic and budgetary issues resulting in the avoidance of layoffs, furloughs and major service level reductions.

Debt Burden

Stockton cited excessive debt burden as a factor leading to the current fiscal crises, including ambitious plans for construction of new public facilities and downtown improvements. The County Treasurer and Tax Collector's review of Stockton's debt profile revealed that the City made ill-advised choices to issue pension obligation bonds and to finance the construction of non-essential assets. The decision to issue pension obligation bonds was particularly damaging given that the success of this borrowing was premised entirely on the City's ability to re-invest bond proceeds in high-yielding equity investments. Yet shortly after the bonds were issued, the stock market experienced a severe reversal and Stockton was left with a fixed obligation greater than its prior pension funding requirement.

In contrast, while Los Angeles County did issue pension obligation bonds in the mid-1990s, these bonds matured in 2011 and the current Treasurer and Tax Collector has stated that he would not recommend this form of financing for Los Angeles County going forward. In addition, the CEO has made it a practice to use long-term debt solely for the purpose of financing of essential County assets. TTC provides further comparison and analysis of Stockton's and the County's debt profiles in Attachment I.

Housing Market Collapse

Many of the financial decisions made by the City of Stockton were during periods of economic growth including a housing boom. Upward housing trends were anticipated to continue, resulting in higher property tax revenue to finance city expenditures. However, with the economic downturn, Stockton's housing market collapsed and the City has experienced the worst foreclosure rate in the United States. Resold homes are selling for far lower prices, reducing the property tax base further.

Prior to the housing market collapse, Los Angeles County, like the rest of the state, experienced increases in property taxes and other revenues as a result of the strong real estate market and a healthy local economy. During this period, the County enjoyed large surpluses in fund balance. The Board prudently set a portion of these reserves aside for unforeseen circumstances. As a result of the Board's conservative economic policies, the County has been able to address the decreasing revenues, particularly in property taxes, while minimizing the impact on County employees and constituent services.

Another important distinction in this area was that the County did not expect the housing boom to continue forever and as a result, did not enter into long-term financial commitments that relied on sustainable revenue increases.

Unsustainable Retirement Benefits

In the 1990s and early 2000s, Stockton enhanced retirement benefits. These enhancements, in pension and retiree medical benefits, have created the largest unfunded liabilities for the City. Los Angeles County created additional retirement plan tiers, and increased employee contributions, over 30 years ago. In addition, the retirement contributions are actuarially determined and fully funded annually.

Los Angeles County has not enhanced retiree health benefits although we currently fund retiree health benefits on a pay-as-you-go basis. The County is aggressively seeking to change this practice and recently established an Other Postemployment Benefit (OPEB) Trust Fund that will be the repository for future contributions.

Redevelopment Agency Dissolution

Stockton serves as the successor agency for the recently dissolved Redevelopment Agency, assuming this role to protect its interests in terms of debt management and disposition of real property. However, due to some of the financial issues found at the time of takeover, the City will incur ongoing burdens for the General Fund.

The dissolution of Redevelopment Agencies is not expected to be a financial burden to Los Angeles County. The County's redevelopment activity is limited to a small number of projects in the unincorporated area that do not have a material impact on the County's Funds.

Fiscal Monitoring Issues

Stockton reported accounting errors such as double-counting of parking citation cash, failure to write down as uncollectible their accounts receivables dating back 10 years or more, and adjustments to wages and expenditures which had the net effect of overstating the General Fund's available balance by \$3.8 million.

The County recognizes expenditures and revenues in a manner consistent with generally accepted accounting principles for governmental entities. The County closely monitors its on-going financial performance against the budget adopted by the Board regularly during the fiscal year. In addition, the County's cash flow is monitored by a multi-department committee, with monthly reports provided to the Board and made available to investors and rating agencies.

CONCLUSION

Due to the Board's conservative fiscal decision-making, and the Board's adoption of the County's "Budget Policies and Priorities" in 1996, the County implemented fiscal prudence and long-term strategic fiscal planning over a decade ago.

In addition, the County maintains a five-year fiscal forecast to project any fiscal challenges in the future and actively plans for alternatives to address them. Actions are already underway to address issues such as the retiree health costs, and the strong collaboration with our labor partners, and ongoing efficiency efforts assure that Los Angeles County does not face the factors that led to the bankruptcy of the City of Stockton.

WTF:ES:SK
JW:MM:yjf

Attachment (1)

c: Executive Office, Board of Supervisors
 Auditor-Controller
 County Counsel
 Treasurer and Tax Collector

REPORT ON FINANCIAL PRACTICES COMPARISON LOS ANGELES COUNTY AND CITY OF STOCKTON

BACKGROUND ON THE CITY OF STOCKTON AND THE COUNTY OF LOS ANGELES

The City of Stockton identified six primary factors that led to its bankruptcy filing: 1) unsustainable labor agreements; 2) excessive debt burden; 3) the housing market collapse; 4) unsustainable retirement benefits; 5) redevelopment agency dissolution; and; 6) fiscal monitoring issues.

By contrast, the County Board of Supervisors has consistently remained conservative in its budgetary and fiscal decision-making to ensure the County's financial well-being. During the economic years when the County experienced large year-end fund balances, the Board set aside reserves for meeting future needs and further assured the County's stability by avoiding the use of one-time funding to pay for ongoing needs. Once the economic downturn was evident, the Board implemented measured and strategic steps to address the issue and was pro-active in partnering with the labor unions to agree to forgo salary increases. The Board also encouraged County departments to identify efficiencies and improvements in departmental operations that resulted in savings.

Beginning in FY 2008-09, and coinciding with the national financial crisis, the County's General Fund projected significant future budget gaps. Despite the economic downturn, County forecasted shortfalls have been managed without major service level reductions, layoffs or furloughs. This achievement has been made possible through the leadership of the Board, County managers, labor unions and the hard work of all County employees. The Board's long-standing conservative budget practices and strong fiscal policies placed the County in a strong position to weather these volatile economic times. The budget solution strategy during the economic downturn has been to close the budget gap through a combination of ongoing departmental curtailments and new revenue solutions coupled with one-time funding from County reserves and reductions in the County's capital program.

In addition, to control costs, the County has aggressively pursued savings through the Efficiency Initiative Program; implemented a hard hiring freeze; and placed a freeze on non-essential services, supplies and equipment.

Throughout this period, employee labor groups have actively partnered with the County by agreeing to forgo salary increases and salary and step increases for County Managers have been suspended.

LABOR AGREEMENTS

Stockton

Labor contracts approved in previous years are described by the City as “neither transparent nor sustainable”. Salary surveys that were used to make decisions about the appropriate salary levels were reportedly tied to cities that were not comparable to Stockton’s labor market, and did not take into consideration such “additional pays” for bonus such as longevity, education and specialty assignments. Thus, when base pay and additional pay were combined, salaries were higher than the Stockton labor market.

As the economy worsened, Stockton initiated negotiations with labor unions to modify benefits. All but two unions have agreed to renegotiate. However, the City declared two fiscal emergencies and imposed concessions on these two labor unions that represent the majority of the City’s employees. These actions are being challenged in court.

Los Angeles County

Los Angeles County performs classification studies as part of its ongoing process for evaluating compensation for its employees. The process is a major factor in ensuring that the County offers a competitive compensation package in order for the County to continue to effectively provide vital services in areas such as Health, Public Safety, and Social Services. The County utilizes professional compensation surveys and compensation specialists to collect regional as well as national salary and benefits data in determining the appropriate level of pay for its classifications. Additional pay, such as bonuses, are one of the components reviewed for comparative salary analysis.

Los Angeles County’s Collaboration with Labor to Survive the Economic Downturn

The County and Labor have collaboratively partnered in an effort to reduce costs that have the least impact on employees and ensure the on-going financial health of the County. Since 2009, this has been achieved primarily through a salary freeze along with a hiring freeze.

Additionally, non-represented positions have been subject to the hiring freeze; and non-represented employees have participated in a salary freeze, including the suspension of step increases

DEBT

Stockton

The City of Stockton points to excessive debt burden as one of the factors contributing to its bankruptcy. The City recently took on sizeable amounts of long-term debt to finance new public facilities and improve its downtown area. Even with these borrowings, however, Moody’s Investors Service estimates that Stockton’s debt service represents only 2.0 percent of its total operating expenditures. This percentage

compares favorably to the median debt ratio for California cities of 2.3 percent and is only slightly above the 1.6 percent median for California counties.

In reviewing the outstanding debt profile of the City of Stockton, the County Treasurer and Tax Collector identified the following five practices that served to aggravate the fiscal strain in Stockton: 1) issuance of pension obligation bonds; 2) financing of non-essential assets; 3) issuance of long-term variable rate debt; 4) allowing the General Fund to serve as a backstop for Redevelopment Agency debt; and 5) engaging in interfund borrowing. The decision by Stockton to issue pension obligation bonds was particularly ill-advised given that the success of this borrowing was premised entirely on the City's ability to re-invest bond proceeds in high-yielding equity investments. Yet shortly after the bonds were issued, the stock market experienced a severe reversal and Stockton was left with a fixed obligation far greater than its prior pension funding requirement. With respect to the financing of non-essential assets, Stockton made the assumption that the hyper-growth it was experiencing due to the housing boom would continue "indefinitely", and that developer fees and property tax growth would pay the debt expense. When the housing growth stalled and revenues decreased, the City elected to default on its debt service obligation and abandon certain non-essential parking facilities that it had financed with long-term bonds.

Los Angeles County Policy on Debt Management

The County of Los Angeles established debt management guidelines in 1998 that limit the combined amount of annual payments on medium-term and long-term obligations to 4.0 percent of the Total General County Budget. Since 1998, the County has never been near to approaching this 4.0 percent maximum. For Fiscal Year 2012-13, it is estimated that debt services payments on long-term General Fund obligations will be just under 1.0 percent of the Total General County Budget.

The questionable debt issuance practices identified in the City of Stockton are not likely to materialize in Los Angeles County. While the County did issue pension obligation bonds in the mid-1990s, these bonds matured in 2011 and the current Treasurer and Tax Collector has stated that he would not recommend this form of financing for Los Angeles County going forward. In addition, the CEO has made it a practice to issue long-term debt solely for the purpose of financing essential County assets. In relation to the long-term variable rate bonds and interfund borrowing, the County has not engaged in such practices since 1994 and 1977, respectively. The County has also never used its General Fund as a back-stop for Redevelopment Agency debt.

HOUSING MARKET COLLAPSE

Many of the financial decisions made by the City of Stockton were during periods of economic prosperity that resulted in a housing boom. The assumption was that the upward housing trends would continue, and that the increase in revenues from sources such as property taxes would be available to cover city expenditures. However, with the

advent of the economic downturn, Stockton's housing market collapsed and the City has experienced the worst foreclosure rate in the United States, with one out of every 60 homes in some stage of the foreclosure process. A City report also indicated that when homes are resold, it is at a lower price, which readjusts the base property tax downward. The report reviewed projected a negative fund balance of \$15.2 million for June 30, 2012. If some of the underlying factors remain the same such as shrinking revenues and rising retiree health costs, the problem may worsen.

Los Angeles County took a conservative approach to fiscal matters during the economic growth period. When the County experienced large surpluses in fund balance, primarily from the housing boom, during these years, the Board set aside economic reserves for future and unforeseen circumstances. As a result of the Board's conservative economic policies, the County has been able to address the decreasing revenues, particularly in property taxes.

Also, although Los Angeles County experienced a significant reduction in property taxes revenues during the housing market collapse; the housing market is overall much more mature, due in part to Proposition 13, which has resulted in a significant amount of "stored" home value appreciation that has not been reflected on the property tax rolls. This phenomenon served to mitigate some of the volatility of the housing market collapse for Los Angeles County, although it was still significant.

RETIREMENT BENEFITS

Pension Benefits

Stockton

In the 1990s and early 2000s, the City of Stockton enhanced retirement benefits. Benefits are currently set at:

- Police: 3 percent of retirement eligible compensation at age 50 with Employer-Paid Member Contributions and additional survivor benefits – granted in 2000.
- Fire: 3 percent of retirement eligible compensation at age 50 with Employer-Paid Member Contributions and additional survivor benefits – granted in 2001.
- General Member: 2 percent of retirement eligible compensation at age 55 – granted in 1993;
- Enhancements: In 1997, the City added enhancements including additional survivor benefits, Employer-Paid Member Contribution, and sick leave conversions.
- COLA: 5 percent COLA provision – granted in 2001.

Los Angeles County

Over 30 years ago, the County recognized that the retirement benefit plans that were in place were fiscally unsustainable, and took steps to add additional tiers and increased employee contributions. While the County faced fiscal challenges from the State's property tax shift to schools, exacerbated by the recession and declining federal funds in the 1990s, the Board's earlier aggressive action to ensure the retirement plans stability and fiscal sustainability by increasing the age at which maximum benefits were paid highlights the County's proactive approach to fiscal issues. The retirement contribution is actuarially funded 100 percent annually, as required, and there are no outstanding pension bonds.

Los Angeles County has tiered pension plans with benefits as follows:

Safety Retirement Plans

- | | |
|---------|--|
| Plan A | 2 percent of retirement eligible compensation at age 50 (closed to new enrollment in 1977) |
| Plan B* | 2 percent of retirement eligible compensation at age 50 |

General Member Retirement Plans

- | | |
|---------|--|
| Plan A | 2 percent of retirement eligible compensation at age 52 (closed to new enrollment in 1977) |
| Plan B* | 2 percent of retirement eligible compensation at age 55 (closed to new enrollment in 1978) |
| Plan C | 2 percent of retirement eligible compensation at age 61 (closed to new enrollment in 1979) |
| Plan D* | 2 percent of retirement eligible compensation at age 61 |
| Plan E | 2 percent of retirement eligible compensation at age 65 |

*Although there is no difference in the formulas of Safety Plans A and B and General Member Plans C and D, there are significant plan design differences that made the change to the new plan more financially sound for the County.

Retirement Health Benefits

Stockton

Funding for Stockton's retiree health costs is on an annual pay-as-you-go basis. The City has taken a number of steps to reduce the unfunded liability related to this benefit; however, as of the City's report, dated May 7, 2012, the unfunded liability remains at \$417 million.

The City of Stockton offered retiree health insurance benefits at levels that were more generous than most cities. The City pays 100 percent of the premium and covers the retiree and one dependent. Additionally, there is no cap on the City's cost, and for some employees there is no requirement of minimum years of service to receive these benefits.

Los Angeles County

The County retiree health care benefit program is currently funded on a pay-as-you-go basis. This pay-as-you-go approach has led to the accumulation of a financial liability. This liability which now must be quantified under governmental accounting rules is valued at \$22.9 billion, as of July 1, 2010.

The County is in the process of considering plan design changes, in collaboration with our partners in labor and the Los Angeles County Employees Retirement Association to aggressively approach this issue and projects to bring recommendations for these changes to the Board of Supervisors by the spring of 2013. The first step, to provide a repository for future contributions to fund the liability, was the establishment of the Other Postemployment Benefit Program (OPEB) Trust Fund, was approved on May 15, 2012.

REDEVELOPMENT AGENCY DISSOLUTION

Stockton serves as the successor agency for the recently dissolved Redevelopment Agency, assuming this role to protect its interests in terms of debt management and disposition of real property. However, due to some of the financial issues found at the time of takeover, the City will incur ongoing burdens for the General Fund.

The dissolution of Redevelopment Agencies resulted in a fiscal benefit for the State and counties, including Los Angeles County. The County's redevelopment activity is limited to a small number of projects in the unincorporated area and therefore did not result in any material negative financial consequences for the General Fund

FISCAL MONITORING ISSUES

Stockton reported accounting errors such as double-counting of parking citation cash, failure to write down as uncollectible their accounts receivables dating back 10 years or more, and adjustments to wages payable and expenditures which had the net effect of overstating the General Fund's available balance by \$3.8 million.

The County, through the fiscal policies and procedures established by the Auditor-Controller, recognizes expenditures and revenues in a manner consistent with generally accepted accounting principles for governmental entities. The County is subject to an annual financial audit by an independent auditor, conducts numerous internal audits and

special reviews, is audited by many of its external funding sources, such as Medi-Cal, and undergoes an annual single audit of all federally funded expenditures. The County closely monitors its performance against the budget adopted by the Board regularly during the fiscal year. In addition, the County's cash flow is monitored by a multi-department committee, with monthly reports provided to the Board and made available to investors and rating agencies.

CONCLUSION

As demonstrated by comparison of the above policies, procedures, and practices Los Angeles County has been very proactive and conservative in its approach to fiscal management.

In 1996, the Board adopted a set of "Budget Policies and Priorities" (Exhibit I) that provided guidelines to maintain fiscal prudence and long-term strategic fiscal planning. This document also provided direction to the Chief Executive Officer in developing the budget and a context to guide Board decision-making in the future.

Some of the policies include:

- Funding on-going costs with on-going revenues.
- Realistic revenue estimates for budgetary planning.
- Focusing reductions in programs which are discretionary or where the service level is discretionary.
- Creation of a reserve for Rainy Day Funds to protect essential County programs against unforeseen emergencies and economic downturns.
- Creation of a long-range forecast to reflect continuing programs, anticipate new initiatives, identify revenue changes and cost increases, including potential problem issues that impact strategy for maintaining a balanced budget.

In addition, in 1998, the Board adopted a comprehensive set of "Debt Management Guidelines" (Exhibit II) to regulate the use of various financing instruments within the County of Los Angeles.

The above policies, priorities, and guidelines established and followed by the Board provide strong assurances that the County of Los Angeles is unlikely to face the risk of bankruptcy.

Exhibit I



Los Angeles County
BOARD OF SUPERVISORS POLICY MANUAL

Policy #:	Title:	Effective Date:
4.030	Budget Policies and Priorities	12/17/96

PURPOSE

Fosters fiscal prudence and long-term strategic fiscal planning by establishing policies and priorities that will assist departments in preparing their budget requests, provides direction to the Chief Executive Officer in developing the Proposed Budget and provides a context to help guide Board decision-making consistent with deliberations on the Final Budget.

REFERENCE

December 17, 1996 Board Order, Synopsis 67
 September 21, 2004, Board Order 13

January 27, 2009, Board Order 15

February 3, 1998 Board Motion

June 20, 2011, Board Motion

POLICY

The initial policy has been amended and augmented with additional polices which are consistent with the general budget policy direction indicated by recent Board actions and discussions.

Budget Policies:

1. In developing recommendations that may require operational reductions, departments should ensure that administrative and non-service areas have been reduced to the maximum extent possible. In general, any service reduction, which may be necessary, should include commensurate reductions in administrative functions, such as management/supervisory, payroll, or other support staff. Reductions should include an overall review of management structure with the objective of reducing layers of management. Further, reductions should focus on

positions most recently added and/or programs most recently augmented.

2. Focus reductions in programs which are discretionary or where the service level is discretionary.
3. Ongoing costs should be funded with ongoing revenues. Aligning continuing expenditures with continuing revenues, on a level that can be reasonably sustained, will foster stability, predictability, and long-range planning, while avoiding volatility in service levels. Before expanding services, use new, ongoing revenues to meet current obligations and reduce reliance on one-time funding. New programs should not be proposed without identification of (a) specific and continuous funding source (s).
4. The budget should be based on realistic revenue estimates. Future costs should only be budgeted if there is a high probability that the funds will be available to support them. Reliance on new revenues from anticipated growth or revenues contingent upon passage of legislation, unless reasonably assured, can place the budget at risk and raise false expectations.
5. Mandated programs should normally be implemented at the level of funding provided by the State or federal government; continuing to provide supplemental local funding for unfunded or under-funded State/federal mandates allows other levels of government to escape responsibility for providing adequate funding for mandates they place on the County. Similarly, to the extent that public health and safety are not jeopardized, County overmatches should be reduced or eliminated.
6. All new requests for program funding should be accompanied with clear and concise statements of the program's mission, objectives, and intended measurable outcomes; managers will be evaluated, in part, on achievement of outcomes.
7. Unless there is a clear compelling reason for a particular service to be provided by County employees, the choice of a service provider should be based on which entity can provide the service most effectively at lowest cost, whether it be the County, a non-profit organization, a private business, or another jurisdiction.
8. The feasibility and legality of imposing fees or other charges should be evaluated for any service provided by the County where full cost recovery is not currently achieved, particularly services which benefit other jurisdictions.
9. A Reserve for Rainy Day Funds should be maintained to protect essential County programs against unforeseen emergencies and economic downturns. The Reserve cap should be 10% of on-going locally generated revenue. Transfers of three percent (3%) should be made into Reserve each year, if feasible, until the 10% cap is met.

When the reserve cap of 10% is exceeded, the excess may be available for specified one-time purposes such as capital projects, unfunded retiree health

obligations, efficiency measures and information technology initiatives. The objective is to avoid on-going commitments with funding that may not be sustainable in an economic downturn.

10. Budget decisions should be considered within the context of revenue and expenses projected beyond a single fiscal year. A long-range forecast should be developed and maintained to reflect continuing programs, anticipated new initiatives, revenue changes, cost increases, potential problem issues and other factors that may impact strategy for maintaining a balanced budget over several years.
11. The status of expenses and revenue for each department should be closely and thoroughly monitored, with reports provided to the Board on a regular basis. Department Heads should be responsible for tracking deviations from planned revenue receipts and expenses, and for recommending adjustments as needed to end fiscal year in balance.
12. The County should phase in funding of unfunded liabilities. The County currently budgets a number of unfunded incurred liabilities, such as Workers' Compensation, on a pay-as-you-go basis, instead of funding reserves to cover future payments. Failure to address unfunded liabilities is a form of deficit spending, which if left unchecked, will eventually consume larger and larger portions of the annual budget. Accepted actuarial and accounting practices require that reserves be established so that future payouts of today's costs do not impact future operating budgets.
13. The County provides Health Care and Dependent Care Spending Account benefits that help participating employees save money by using pre-tax dollars to pay for certain eligible expenses. Under applicable federal tax rules, plan participants must forfeit any money that is not spent on unreimbursed, eligible expenses during the plan year. Forfeited spending account funds should be used as follows: a) Forfeited employees' Dependent Care Spending Account monies shall not revert to the General Fund at the end of the year. The monies should be equally divided amongst County-operated child care centers for facility and/or program enhancements. The County's child care coordinator should work with the operator and advisory committee of each site to develop a plan to utilize the funds; and b) Forfeited employee Health Care Spending Account monies, as determined by the Department of Human Resources, shall be transferred to the Reserve for Rainy Day Funds each fiscal year on an annual basis.

Budget Priorities:

1. Public Safety and Justice (includes all law enforcement, justice, and public related operations)
2. Public Health and Welfare/Prevention (includes all health, welfare, and social service operations)

3. Direct Public Services (includes all recreational, cultural, consumer protection, and many regulatory operations)
4. Internal and Support Services (includes all central staff and support operations)

RESPONSIBLE DEPARTMENT

Chief Executive Office

DATE ISSUED/SUNSET DATE

Issue Date: December 17, 1996
Re-issue Date: September 21, 2004
Review Date: December 18, 2008
Re-issue Date: January 27, 2009
Review Date: May 21, 2009

Sunset Review Date: December 17, 2003
Sunset Review Date: December 17, 2008
Sunset Review Date: December 17, 2012
Sunset Review Date: December 17, 2012
Sunset Review Date: December 17, 2012

Exhibit II



Los Angeles County
BOARD OF SUPERVISORS POLICY MANUAL

Policy #:	Title:	Effective Date:
4.040	Debt Management Guidelines	06/29/98

PURPOSE

Provides comprehensive debt management guidelines to regulate the use of various financing instruments within the County of Los Angeles. These guidelines provide limits for the issuance of Short- and Long-Term obligations. The limits established herein do not apply to voter-approved debt or debt incurred by Agency funds.

REFERENCE

June 29, 1998 Board Order, Synopsis 12-B

POLICY

Guidelines for the following types of obligations:

Short-Term Obligations: The maximum limit for outstanding short-term obligations, such as Bond Anticipation Notes issued for capital projects and equipment acquisitions, shall be set annually at 2 percent of the Total County Budget.

Short-Term Tax-Exempt Notes: The total amount of short-term tax-exempt notes is limited to the maximum amount borrowable under the federal tax regulations.

Publicly Offered Intermediate and Long-term Obligations: The maximum limit on annual payments shall be set at 4 percent of the Total County Budget each fiscal year.

Privately Placed, Intermediate-Term Equipment Leases: The maximum limit on annual payments shall be set at 0.4 percent of the Total County Budget each fiscal year. (This includes various bonds and unrated, privately placed equipment leases.)

Requires an annual update of this policy, coincident with the Proposed Budget.

RESPONSIBLE DEPARTMENT

Chief Executive Office

DATE ISSUED/SUNSET DATE

Issue Date: June 29, 1998

Sunset Review Date: June 29, 2002

Review Date: November 21, 2002

Sunset Review Date: November 21, 2006

Annual update of this policy included in Proposed Budget process from

November 21, 2006 to August 1, 2010.

Review Date: August 3, 2010

Sunset Review Date: August 19, 2014